



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Adopt resolution authorizing the City Manager and Electric Utility Director to issue a request for bids, determine the best bid and execute a contract for a 25 megawatt baseload power purchase for fiscal years 2008 through 2010 at a cost not to exceed \$68 per megawatthour (EUD)

MEETING DATE: January 17, 2007

PREPARED BY: Electric Utility Director

RECOMMENDED ACTION: Adopt a resolution authorizing the City Manager and Electric Utility Director to issue a request for bids, determine the best bid and execute a contract for a 25 megawatt baseload power purchase for fiscal years 2008 through 2010 at a cost not to exceed \$68 per megawatthour.

BACKGROUND INFORMATION: Lodi's Electric Utility Department (EUD) must procure wholesale energy in order to economically meet its customer load obligations for fiscal year 2007-08 (FY08) and beyond. In FY08, EUD's projected "open position" is approximately 340 gigawatt-hours (GWH) or about 65% of EUD's total customer load obligation. The utility's open position in FY09 and FY10 is similar.

Through prior material provided to the City Council, EUD has a baseload energy need going forward of about 30 MW. EUD's strategy for filling a significant part of its "baseload" energy needs in the FY08-FY10 period has been to obtain up to 25 MW of rights in the Resource 500 Project -- an existing power plant for which the Northern California Power Agency (NCPA) was negotiating to acquire. EUD was notified recently, however, that the proposed transaction was not viable due to lack of interest by the current Resource 500 owner.

A complementary strategy for filling EUD's long-term baseload power needs involves the construction of the New Lodi Project -- a 255 MW combined cycle natural gas project currently under development at White Slough for projected operation in FY11. The NCPA Commission recently approved Phase 2A of the development program (permits and licensing) and interested parties are in the process of executing Phase 2A development agreements. EUD expects to bring this agreement to the City Council for consideration at the February 7 City Council meeting for participation at the 20 MW level.

The price for longer-term power has recently softened on the wholesale market. Within the past two weeks, EUD received an indicative price (non binding quote) of about \$67/MWH for a 25 MW block of baseload energy for the FY08-FY10 period. This is 10+ percent less than recent price projections. For comparison, the projected price for Resource 500 and New Lodi energy were in the \$70-72/MWH range when last evaluated in December 2005. EUD's most recent financial forecast projects average market prices of \$69.36 in FY08, \$69.37 in FY09 and \$66.85 in FY10 -- a simple average of \$68.52. (Note that forward electric prices can change dramatically in a matter of days.)

APPROVED:

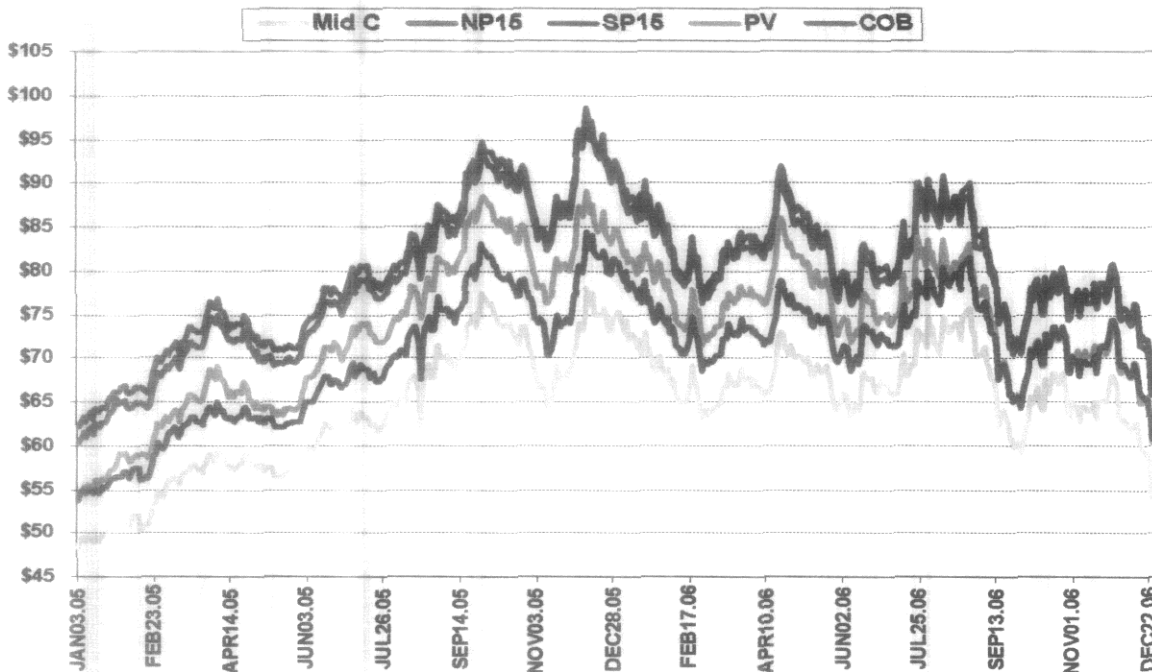

Blair King, City Manager

Adopt resolution authorizing the City Manager and Electric Utility Director to issue a request for bids, determine the best bid and execute a contract for a 25 megawatt baseload power purchase for fiscal years 2008 through 2010 at a cost not to exceed \$68 per megawatthour (EUD)

January 17, 2007

Page 2 of 3

As a result, Staff recommends that EUD seek to procure a 25 MW block of power "around the clock" for the FY08-FY10 timeframe. A 25 MW baseload energy purchase will reduce EUD's 65% open position in FY08-FY10 to a level of about 25%. Such an acquisition at favorable pricing terms will significantly reduce EUD's exposure to adverse price risk associated with market volatility. Such a stabilizing transaction is also expected to be received favorably by the financial ratings community.



As a means of visually showing the trend of future electric prices in the hedge market, the above graph shows prices for power (Lodi purchases point is NP15 depicted by the red line).

EUD procures energy through its membership in the NCPA. NCPA is presently authorized to assist power pool members obtain market energy for a future period not beyond one year. To make market power purchases beyond this period through NCPA, members can execute a Single Member Services Agreement (SMSA), which is written to minimize the risk to other NCPA members when energy is purchased for the benefit of a single member. EUD is reviewing the feasibility of consummating such an arrangement with NCPA in the near future. The SMSA will require EUD to meet certain relatively strict credit/collateral requirements.

The proposed 25 MW block of power would be acquired on a bilateral basis. That is, EUD would contract directly with a seller. It is expected that NCPA will assist EUD with this procurement by issuing the request for bids, advising on bid evaluation and providing contract support/advice. Presently, NCPA has "enabling" agreements with a number of qualified energy suppliers in the California market. It would be EUD's objective to enter into a contract with the successful bidder in a form similar to the contract NCPA has with such bidder.

For information, if the initial request for bids does not produce a satisfactory offer for any reason (i.e. price too high, credit/collateral requirements unsatisfactory, inability to consummate acceptable contract, etc.), it is expected that EUD could go to the market on a number of occasions prior to June 30, 2007. If an acceptable baseload purchase arrangement is not completed by this date, the authorization under the proposed City Council resolution would expire.

Adopt resolution authorizing the City Manager and Electric Utility Director to issue a request for bids, determine the best bid and execute a contract for a 25 megawatt baseload power purchase for fiscal years 2008 through 2010 at a cost not to exceed \$68 per megawatt-hour (EUD)

January 17, 2007

Page 3 of 3

On November 15, 2006, the City Council authorized the purchase of up to \$25 million of electric energy and natural gas to close EUD's open position in FY08 through a series of strategic acquisitions. If EUD is successful in consummating a 25MW baseload purchase affecting FY08, the \$25 million authorization amount will be reduced accordingly.

FISCAL IMPACT: At \$68/MWH, the annual cost of procuring 25 MW of baseload energy is about \$14.9 million.

FUNDING: Costs associated with procurement under this authorization will not be incurred until energy is delivered in fiscal years 2008, 2009 and 2010. The City has not adopted a budget for these fiscal years, and as a result, funding has not yet been established. Funding for this authorization will be supported by retail electricity sales revenue, once the applicable fiscal year budgets are established and approved by the City Council.

Funding Approval:


Kirk Evans, Budget Manager


George F. Morrow
Electric Utility Director

GFM/lst



**CITY OF LODI
COUNCIL COMMUNICATION**

AGENDA TITLE: Adopt resolution authorizing the City Manager and Electric Utility Director to issue a request for bids, determine the best bid and execute a contract for a 25 megawatt baseload power purchase for fiscal years 2008 through 2010 at a cost not to exceed \$65 per megawatthour (EUD)

MEETING DATE: January 17, 2007

PREPARED BY: Electric Utility Director

RECOMMENDED ACTION: Adopt a resolution authorizing the City Manager and Electric Utility Director to issue a request for bids, determine the best bid and execute a contract for a 25 megawatt baseload power purchase for fiscal years 2008 through 2010 at a cost not to exceed \$65 per megawatthour.

BACKGROUND INFORMATION: Lodi's Electric Utility Department (EUD) must procure wholesale energy in order to economically meet its customer load obligations for fiscal year 2007-08 (FY08) and beyond. In FY08, EUD's projected "open position" is approximately 340 gigawatt-hours (GWH) or about 65% of EUD's total customer load obligation. The utility's open position in FY09 and FY10 is similar.

Through prior material provided to the City Council, EUD has a baseload energy need going forward of about 30 MW. EUD's strategy for filling a significant part of its "baseload" energy needs in the FY08-FY10 period has been to obtain up to 25 MW of rights in the Resource 500 Project -- an existing power plant for which the Northern California Power Agency (NCPA) was negotiating to acquire. EUD was notified recently, however, that the proposed transaction was not viable due to lack of interest by the current Resource 500 owner.

A complementary strategy for filling EUD's long-term baseload power needs involves the construction of the New Lodi Project -- a 255 MW combined cycle natural gas project currently under development at White Slough for projected operation in FY11. The NCPA Commission recently approved Phase 2A of the development program (permits and licensing) and interested parties are in the process of executing Phase 2A development agreements. EUD expects to bring this agreement to the City Council for consideration at the February 7 City Council meeting for participation at the 20 MW level.

The price for longer-term power has recently softened on the wholesale market. Within the past two weeks, EUD received an indicative price (non binding quote) of about \$67/MWH for a 25 MW block of baseload energy for the FY08-FY10 period. This is 10+ percent less than recent price projections. For comparison, the projected price for Resource 500 and New Lodi energy were in the \$70-72/MWH range when last evaluated in December 2005. EUD's most recent financial forecast projects average market prices of \$69 in FY08 and FY09 and \$66.85 in FY10. (Note that forward electric prices can change dramatically in a matter of days.)

APPROVED:

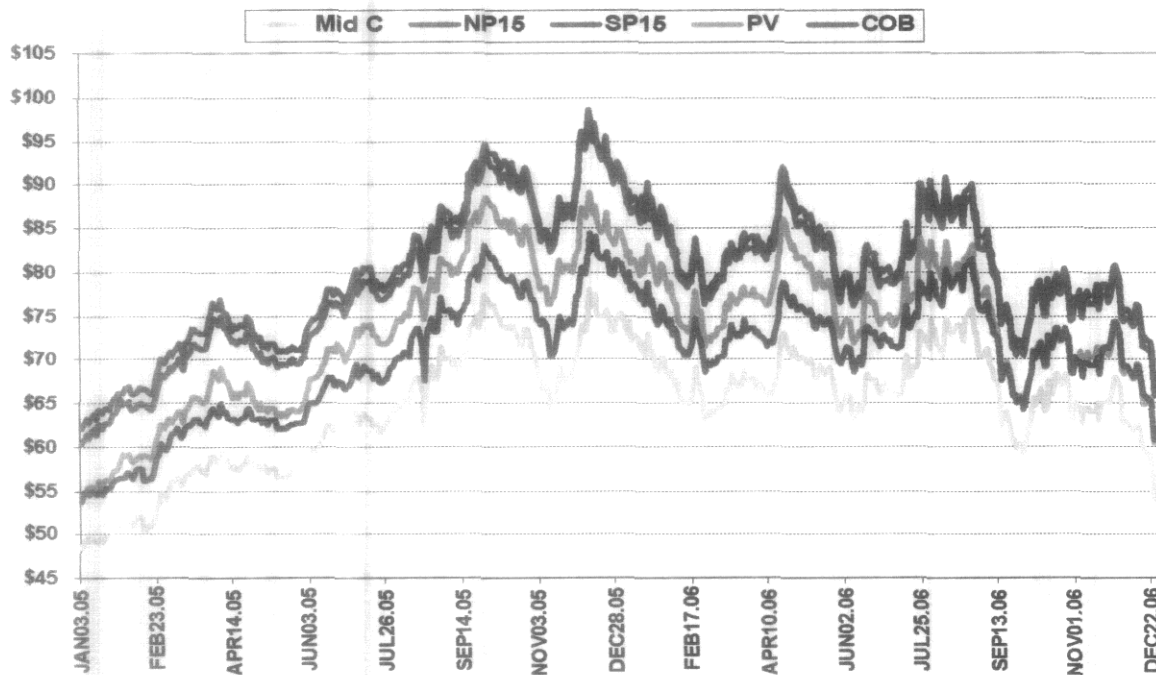
Blair King, City Manager

Adopt resolution authorizing the City Manager and Electric Utility Director to issue a request for bids, determine the best bid and execute a contract for a 25 megawatt baseload power purchase for fiscal years 2008 through 2010 at a cost not to exceed \$65 per megawatthour (EUD)

January 17, 2007

Page 2 of 3

As a result, Staff recommends that EUD seek to procure a 25 MW block of power “around the clock” for the FY08-FY10 timeframe. A 25 MW baseload energy purchase will reduce EUD’s 65% open position in FY08-FY10 to a level of about 25%. Such an acquisition at favorable pricing terms will significantly reduce EUD’s exposure to adverse price risk associated with market volatility. Such a stabilizing transaction is also expected to be received favorably by the financial ratings community.



As a means of visually showing the trend of future electric prices in the hedge market, the above graph shows prices for power (Lodi purchases point is NP15 depicted by the red line).

EUD procures energy through its membership in the NCPA. NCPA is presently authorized to assist power pool members obtain market energy for a future period not beyond one year. To make market power purchases beyond this period through NCPA, members can execute a Single Member Services Agreement (SMSA), which is written to minimize the risk to other NCPA members when energy is purchased for the benefit of a single member. EUD is reviewing the feasibility of consummating such an arrangement with NCPA in the near future. The SMSA will require EUD to meet certain relatively strict credit/collateral requirements.

The proposed 25 MW block of power would be acquired on a bilateral basis. That is, EUD would contract directly with a seller. It is expected that NCPA will assist EUD with this procurement by issuing the request for bids, advising on bid evaluation and providing contract support/advice. Presently, NCPA has “enabling” agreements with a number of qualified energy suppliers in the California market. It would be EUD’s objective to enter into a contract with the successful bidder in a form similar to the contract NCPA has with such bidder.

For information, if the initial request for bids does not produce a satisfactory offer for any reason (i.e. price too high, credit/collateral requirements unsatisfactory, inability to consummate acceptable contract, etc.), it is expected that EUD could go to the market on a number of occasions prior to June 30, 2007. If an acceptable baseload purchase arrangement is not completed by this date, the authorization under the proposed City Council resolution would expire.

Adopt resolution authorizing the City Manager and Electric Utility Director to issue a request for bids, determine the best bid and execute a contract for a 25 megawatt baseload power purchase for fiscal years 2008 through 2010 at a cost not to exceed \$65 per megawatt-hour (EUD)

January 17, 2007

Page 3 of 3

On November 15, 2006, the City Council authorized the purchase of up to \$25 million of electric energy and natural gas to close EUD's open position in FY08 through a series of strategic acquisitions. If EUD is successful in consummating a 25MW baseload purchase affecting FY08, the \$25 million authorization amount will be reduced accordingly.

FISCAL IMPACT: At \$65/MWH, the annual cost of procuring 25 MW of baseload energy is about \$14.3 million.

FUNDING: Costs associated with procurement under this authorization will not be incurred until energy is delivered in fiscal years 2008, 2009 and 2010. The City has not adopted a budget for these fiscal years, and as a result, funding has not yet been established. Funding for this authorization will be supported by retail electricity sales revenue, once the applicable fiscal year budgets are established and approved by the City Council.

Funding Approval: 
Kirk Evans, Budget Manager


George F. Morrow
Electric Utility Director

GFM/1st



Lodi Electric Utility

25 MW Power Purchase (FY08 - FY10)

**City Council
January 17, 2007**



Background

- EUD must purchase energy in the wholesale market to meet customer needs
- FY08 “open position” is 340 GWH or 38 avg MW per hour
- Annual open position is about 65% of load
- FY09 and FY10 open position is similar

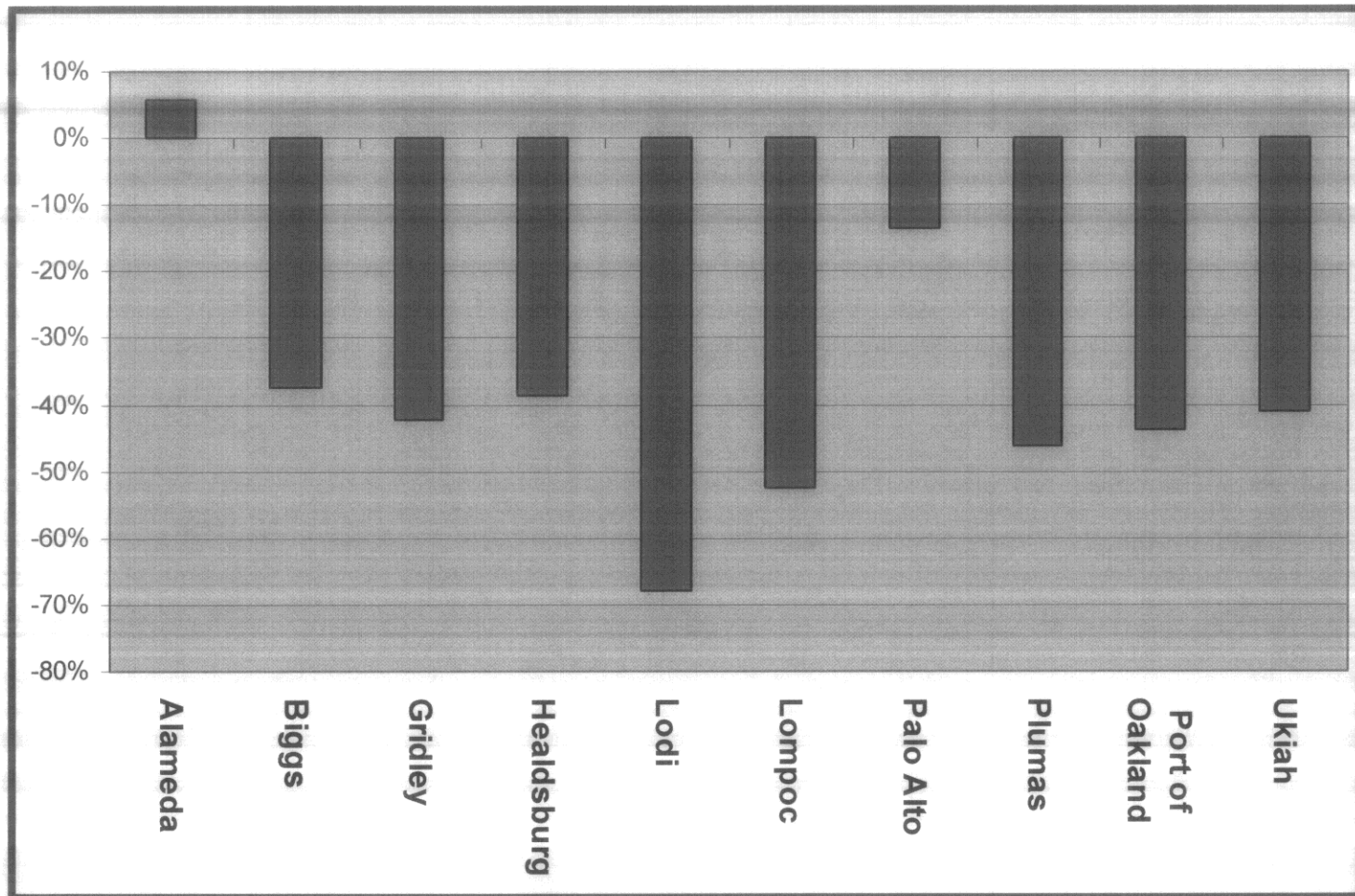


Existing Power Resources

Resource	MW	MWH
Geothermal	16.4	100,780
Hydroelectric	26.8	55,918
CT1 Project	43.4	0
Lodi STIG Project	19.7	0
Western Hydro	5.7	16,382
Seattle Contract	25.0	(10,349)
Totals	137	162,731
Lodi Needs	130	495,707
Net	+7	(332,976)

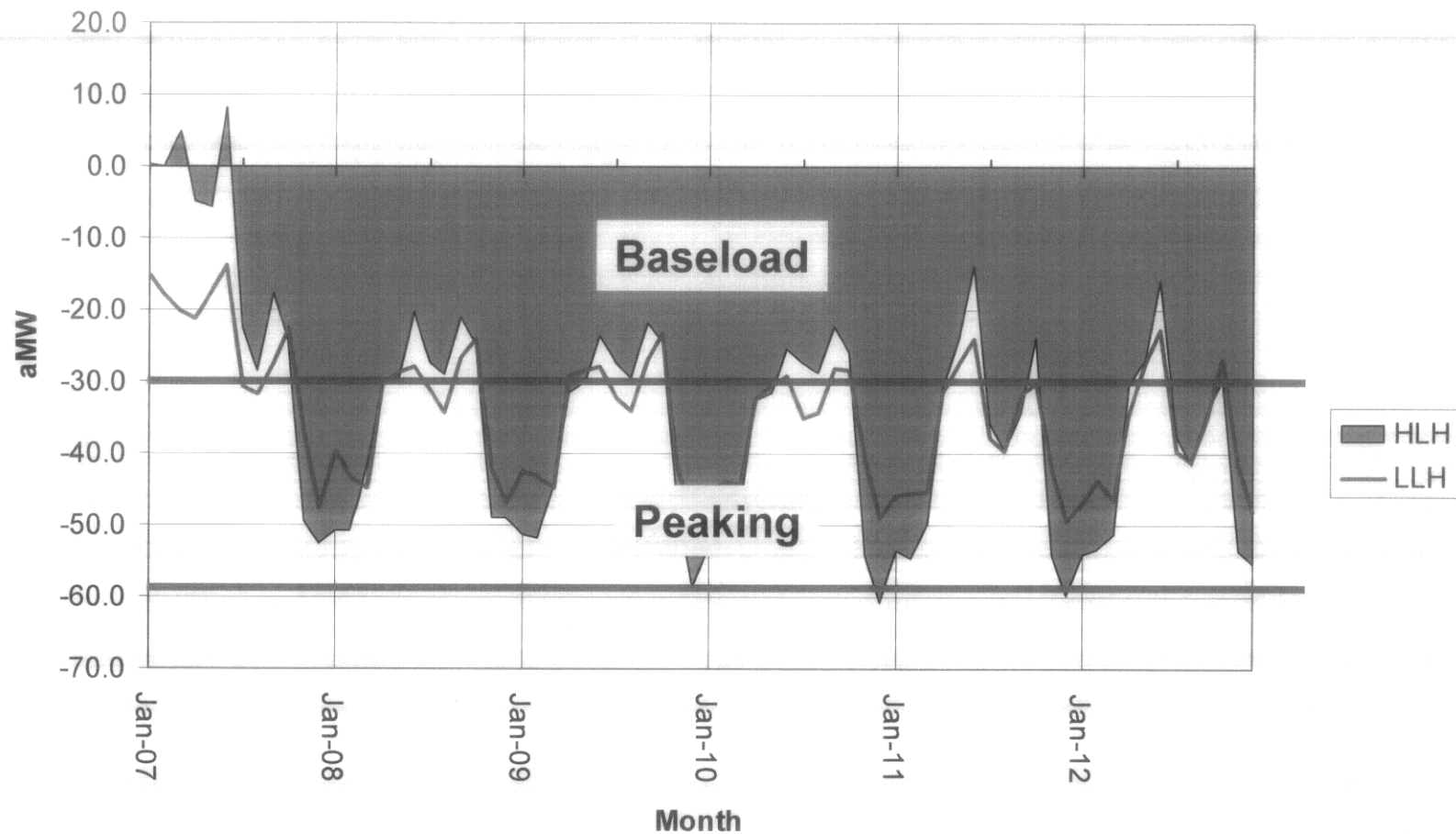


FY08 Open Position





Net Energy Balance





Prior Open Position Strategy

- Resource 500 project would have provided 25 MW of the 38 average MW open position for FY08 and beyond.
- Resource 500 no longer viable option due to owner's desire not to sell
- New Lodi Project still in planning stages for FY11 and beyond. Staff expects to recommend a 30 MW participation for Lodi.



Current Open Position Strategy

- Replace Resource 500 with an open market purchase (25 MW)
- Wholesale market has retreated in recent months by about 10% or so
- Prior cost estimates for Resource 500 were about \$70/MWH
- Current EUD financial forecast projects average open position cost of \$68.52/MWH



Procurement Process

- Bilateral purchase (Lodi is counterparty)
 - No other alternative presently
- NCPA will assist in preparing and issuing RFP as well as bid evaluation
- Desire for purchase contract to track bidder's current contract with NCPA
- No guarantee of a successful bid
 - Maximum price of \$68/MWH
 - Possible credit and/or contract issues



Impact

- \$68/MWH price cap is consistent with current financial assumptions for FY08-FY10
- Annual cost of 25 MW at \$68/MWH is about \$14.9 million per year
- Will reduce EUD open position from 65% to about 25%
- Transaction expected to be viewed favorably by financial community



Recommendation

- Authorize issuance of 25 MW Request For Proposals
- Maximum price of \$68/MWH (approximately current market price)
- City Manager and EUD Director to oversee procurement process including execution of contract with successful bidder
- Authorization expires June 30, 2007



Questions/comments?

RESOLUTION NO. 2007-12

A RESOLUTION OF THE LODI CITY COUNCIL AUTHORIZING
THE CITY MANAGER AND ELECTRIC UTILITY DIRECTOR TO
ISSUE A REQUEST FOR BIDS, DETERMINE THE BEST BID,
AND EXECUTE A CONTRACT FOR A 25 MEGAWATT
BASELOAD POWER PURCHASE FOR FISCAL YEARS 2008
THROUGH 2010 AT A COST NOT TO EXCEED \$68 PER
MEGAWATT HOUR

=====

NOW, THEREFORE, BE IT RESOLVED that the Lodi City Council does hereby
authorize the City Manager and Electric Utility Director to issue a request for bids,
determine the best bid, and execute a contract for a 25 megawatt baseload power
purchase for fiscal years 2008 through 2010 at a cost not to exceed \$68 per megawatt
hour.

Dated: January 17, 2007

=====

I hereby certify that Resolution No. 2007-12 was passed and adopted by the City
Council of the City of Lodi in a regular meeting held January 17, 2007, by the following
vote:

AYES: COUNCIL MEMBERS – Hitchcock, Katzakian, and Mayor Johnson
NOES: COUNCIL MEMBERS – None
ABSENT: COUNCIL MEMBERS – Hansen and Mounce
ABSTAIN: COUNCIL MEMBERS – None



RANDI JOHL
City Clerk